Elementia 4Q18 Conference Call Transcript

Operator: Good morning. My name is Keith, and I'll be your conference operator. At this time, I would like to welcome everyone to the Elementia Earnings Conference Call. All lines have been placed on mute to prevent any background noise. There will be a question and answer session after the speakers' opening remarks, and instructions will be given at that time. Thank you. I will now turn the call over to Alfredo Recke, Elementia's Investor Relations Officer. Please go ahead.

Alfredo Recke: Good morning and thank you for joining us today. On the call with me are Fernando Ruiz Jacques, Chief Executive Officer, and Juan Francisco Sanchez Kramer, Chief Financial Officer. Please be advised that this call is for investors and analysts only. During this call, they will be discussing Elementia's performance as per the earnings release issued today. On the Elementia website on the investor relation section, you can find our earnings report, which is intended to supplement our prepared remarks during today's call. Unless otherwise specified, all figures discussed are in Mexican pesos and all growth comparisons we make on the call today relate to the corresponding period of last year. During this call, we will be making forward looking statements, which are predictions, projections, and other statements about the future events. These statements are based on current expectation, assumptions that are subject to risk and uncertainties. For more detail and the complete disclaimer, please refer to the earnings release. We do not undertake any duty to update any forward looking statements. And with that, I'll turn the call to Fernando.

Fernando Ruiz Jacques: Thank you. Thank you, Alfredo, and good morning everyone. Thank you for joining us today to discuss what was certainly a year of transformational changes for Elementia. From actions that were planned and successfully executed, like the reopening of our Indiana plant and the technology change in Building Systems Latin, to situations that were out of control, such as the mechanical failures at our South Carolina cement plant, the harsh weather conditions and the unexpected changes in copper prices. I am proud to report on the hard work of our team to meet key objectives and overcome major setbacks. So over the fourth quarter 2018, Elementia reported 7% and 11% growth in consolidated revenues and EBITDA respectively.

So now, I would like to go through each of our business units to review the bold, yet thought out and prudent decisions we made during 2018 to return our company to profitable growth.

Let me start with the cement business unit, where our focus remains on expansion, both organic and inorganic, throughout the Americas. Going to Cement Mexico, it was, once again, our star performer. In the full year, it posted a 17% growth in both volume and net sales in 2018 versus 2017, and nearly 25% higher EBITDA. These strong results were due to the successful placement of Tula's expanded capacity because of strong market dynamics during the first half and optimal utilization rates.

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While our average price posted a slight uptick for the full year, in the fourth quarter of 2018, we faced slower market dynamics, as expected in an electoral year, which caused a 1.8% drop in our price for the fourth quarter.

One of the steps we have taken to maximize profitability has been in the area of energy. In order to mitigate rising energy prices, we entered into an agreement with a private energy company to face stable pricing and the proper mix of energy type of our operations.

Furthermore, to continue our growth track in Cement Mexico, we are in the process of constructing a cement grinding facility in Yucatan. Through an investment of US$20 million, we will create a state of the art operation to capitalize on the growth opportunities we have identified in Mexico, starting with the production of 2,500 tons by the end of this year.

Looking forward to the first quarter of 2019, as per the statistics of a post-electoral year, we expect that the slow market dynamics will continue throughout the first half of the year. Nevertheless, we expect possible changes in price trends for the quarter given the recent announcements related to price increase.

Let me now turn to Cement USA, which posted our biggest recovery over the course of the year. As you know, we experienced an unplanned shutdown at our South Carolina plant in late March due to the equipment failure. The hard work put forth by our team turned this challenge into an opportunity by year end. In the fourth quarter, we reported 5% volume growth, with EBITDA up 61%, thanks to the full recovery of volume, the full recovery of clients, aggressive efforts to gain new ones, and an improved cost structure stemming from a steadier and more reliable operating rates in our three facilities.

It's important to highlight that the smoother operations are a consequence of the three year Capex plan that has been executed according to schedule. Regarding the tougher competition in the New England region, we believe that during the fourth quarter it reached an equilibrium, mainly because of the agreements we managed to close with our clients based on our client relationships and commitments with the markets. Therefore, we expect lesser volume and pricing pressure. As per seasonality, the first quarter 2019 figures will be negative. Nevertheless, we expect our EBITDA to improve because of a milder winter and because we're not planning to repeat last year's equipment failure in our South Carolina facility.

Next is Cement Costa Rica, an operation that we are very excited about as we recorded its first six months of operations in our 2018 figures. Costa Rica contributed nearly 30 million in EBITDA, and what I can tell you is that we are very, very pleased with the ramp up trend that we have been managed to establish.

Now, let me turn to Building Systems, the unit in which we made the most transformative changes to proactively begin to recover the profitability of this operation. In the US, we reopened the Indian facility just over one year ago,

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which helped drive 20% volume growth in the US in 2018. I'm happy to report that, as planned, we reached breakeven point during the fourth quarter. Therefore, we managed to more than double our EBITDA from the previous year by improving our volume and its sales by double digits. For the first quarter 2019, we foresee very similar figures to the first quarter 2018.

Now, turning to building Systems Latin America, we carried out tough by yet necessary actions that will improve Elementia's position to return to the path of growth and profitability. As we discussed along the year, the technology change implied incremental cost during the time that we concluded the learning curve of this new technology. I am pleased to report that we managed to master this technology. Also, the region faced difficult macroeconomic conditions, which led to a market contraction. In order to align our business to these new market conditions, we concluded a capacity rationalization and right sizing, as well as a back to basics strategy, to focus on core products. The fourth quarter figures already reflect the benefits of all these achievements, showing an 80% increase in EBITDA for the region. I firmly believe that we are now on a clear path to growth, and I'm proud of the turnaround we have made of this business.

Lastly is our Metal Products business, which reported one of its most challenging quarters in many, many years. Once again, we faced a step fluctuation in copper prices and exchange rate appreciation that impacted our inventory value. Also, it is important to mention that we faced a high workforce turnover rate, mainly because of the investments made by the automotive and aerospace industries in Mexico's central region. These have triggered a lack of skilled workforce throughout the year, impacting the business mainly in higher maintenance costs and time, leading to less available production time, which equaled to a lesser output. This combined with a non-program outage led to higher inventory levels that maximized the impact of copper and FX fluctuations.

In order to address these issues, we are working and focusing on three main things. The first is reducing our conversion period through a better sales and operations planning that will help us reduce our time exposure to exchange rate and copper prices volatility. Second, we will work towards reducing our inventory levels and SKUs following the methodology we implemented in Building Systems Latam to focus on core products, segments, and markets.
And last but not least, we are decreasing the workforce turnover rate by focusing on population segments that have lower turnover rates, along with additional benefits and implementing the philosophy of the "best place to work."

The first quarter 2019 we might continue suffering commodities and FX fluctuations. All the actions we are undertaking to minimize these effects will be implemented throughout the year, and we'll show benefits as we achieve the plan's milestones.

So as you can see from all the actions taken in a year as transformational as 2018 was, Elementia is now better equipped and prepared to return to profitable growth.

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2019 will be all about following through those initiatives implemented last year that helped strengthen Elementia's performance, like minimizing effects from fluctuations in copper prices, continuing with the integration of Giant, complete the ramp up of Costa Rica's grinding facility, to start up operations at Yucatan, all while continuing to deleverage our company, maintaining the leverage levels below three times, and coverage ratios above three times.

In summary, for the full year 2019, we are expecting Cement Mexico fairly even compared to 2018. We are expecting an important recovery in Cement USA. We see a continued growth in Cement Central America. Likewise, we see an important recovery in Building Systems Latam, and we also see an interesting growth in Building Systems USA, while Metal Products expect a mild growth. So on a consolidated level, we plan to grow our EBITDA in low double digits. With this, I conclude my remarks and now turn the call over to Juan Francisco for further details on our financials, our deleveraging initiatives, and our recent capital increase. So Juan Francisco, please go ahead.

Juan Francisco Sanchez Kramer: Thank you, Fernando, and good morning to all. At the consolidated level, the fourth quarter reported better dynamics than that seen in the previous quarters. Revenues increased by 7% while EBITDA grew 11% versus the fourth quarter '17, while EBITDA margin remained fairly the same as the fourth quarter margin. Figures for the fourth quarter, excluding effects from discontinued operations, reported improvements and realized an EBITDA of 2 and 1%, respectively. Full year 2018 consolidated EBITDA reached four billion pesos, quite the same as 2017. Once again, excluding the effects on discontinued operations, 2018 figures decreased 9% versus 2017.

The discontinued operations involved several factors. For starters, during the second quarter 2018 and based on the market dynamics in Latin America, the company decided to adjust the business to the market conditions by rationalizing capacity in Building Systems. This meant closing operations in Honduras, Guadalajara, and Villa Hermosa in Mexico. These actions were later on classified as discontinued operations within our accountings.

Additionally, also in line with market trends, we changed our operations in Mexico, Columbia, Ecuador, and Bolivia to a new technology that offers advantages within the different stages of the value chain. This changed involved reporting all fiber operations based on available technology, including natural fibers, by discontinued operations. Lastly, the galvanized steel business was also discontinued.

As per regulations by the Mexican stock exchange and the Mexican banking institute commission, we are reporting adjusted 2017 and 2018 figures, excluding the afore mentioned discontinued operations.

Now, going into each of the business unit performance, I'll begin with cement, which improved EBITDA levels by close to 14% during the quarter, mostly driven by higher sales volume in all three regions. In Mexico, we faced slower market dynamics that put pressure in prices and also significantly higher energy costs that impacted our margins. In the view of

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incremental power prices, we managed a new energy supply contract that will help mitigate these effects. We also invested close to $10 million for the Yucatan project, which is planned to begin operations by year-end 2019.

In the US, we are seeing the fruits from our initiatives to regain lost customers from the halt experienced in the end of the first quarter 2018. During the fourth quarter, revenues increased 8% based on a 5% increase in volume, mainly coming from South Carolina operations and the alternative fuel business operation. Margins improved more than 5% thanks to a steadier and more controlled operations. Consequently, we were able to grow EBITDA by 61%. It is also important to keep in mind the seasonality effects. The first quarter is always the lowest, followed by the fourth quarter. On the other hand, the third quarter is always the best. The same seasonality effects our Building Systems business in the US.

Finally, the operations in Costa Rica is booming, reporting continued growth trends for both revenues and EBITDA. Our EBITDA margins expanded from 7% to 22% as we absorbed fixed costs.

Moving along, our efforts to turn around Building Systems units are paying off. This quarter, we're reporting great progress of 91% growth in EBITDA compared to the previous year. In the US, we reach breakeven point at the Indiana facility and higher volume sold by 20%. Although, prices remained flat, our EBITDA increased in 91% and margins expanded in two percentage points. Nevertheless, we plan to increase average price by offering higher value-added products.

In the Latam region, EBITDA grew 80% despite lower sales volume and pricing. This was achieved mainly because we continued the learning curve phase for manufacturing chrysotile free products and the refocus of the business to core products, segments and regions.

Finally, let me talk about Metals division. As Fernando mentioned, we faced several challenges related to the fluctuation in copper prices and the appreciation of the Mexican pesos, leading to lower margins. Keep in mind that 100% of our metal revenues are denominated in US dollars. In addition, the lack of a skilled workforce within the central region of Mexico caused a decrease in production and productivity, while increasing cost and inventory levels, which in turn went to non-profits. These combined effects resulted in a 58% year over year decline in EBITDA.

Going to cash flow, Capex totaled 1.7 billion, or around US$90 million, out of which close to US$30 million were for Cement US, US$10 million for Yucatan project, and US$50 million for maintenance and bolt on expansions. For 2019, we are expecting Capex to be between US$70 and YS$80 million, mostly going towards maintenance and completing the three year plan for Cement US.

The net debt position was reduced by $375 million on a combination of cashflow generating from working capital improvements, the capital increased during the quarter, and prepayment of liabilities.

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In consequence, our net debt to EBITDA ratio improved to 3.48 times, from 3.58 times at the end of 2017 and 3.73 times at the end of the third quarter.

Now, let me give you some details on the capital increase we successfully closed on last November. The rights offering was for a total of 120 million shares at 12.50 pesos per share, helping us raise $1.5 billion and the mechanism to keep all Elementia shareholders equal of its participation rights. The overall process was in three stages.

The first subscription concluded with approximately 92.1% subscription. This success was extremely important for us, as it shows the vote of confidence our shareholders have in Elementia.

The second was offered to those who has subscribed and paid for the shares in the first round in more proportion the new percentage of ownership. The second round will conclude with around 6.5% subscription.

Finally, the remaining was exclusively offered to the controlling shareholders. As a result, the slow decreased by close to 1% while the controlling shareholders increased to close to 0.5% each. So thank you all again for the trust you placed in Elementia.

Let me close my remarks with a recap of the year. As you can see, 2018 was without a question a challenging year in many ways. We faced poor weather conditions, several equipment failures, commodity price and exchange rate volatility, political transitions in Mexico, and political difficulties around the world. As such, we can conclude that 2018 was also a transformational year for the company, one of laying the groundwork to continue with expected business growth in our operation while at the same time adjusting to a challenging environment.

Thank you for your attention. And at this point, I would like to ask the operator to please proceed with the Q&A session.

Operator: And at this time, if you'd like to ask a question, please press the star and one on your touchtone telephone. You can remove yourself from the queue by pressing the pound key. Once again, it's star and one on your touchtone phone. We'll take our first question from Alejandra Obregon with Morgan Stanley. Please go ahead.

Alejandra Obregon: Hi. Good morning, everyone, and thank you for taking my question. Just a quick follow up on pricing. If I understood correctly, you mentioned that you're expecting some pricing action in Mexico in 2019, so just wondering if you could help us quantify that. And also, in the US, how should we think of pricing for the year? Thank you.

Juan Francisco Sanchez Kramer: Thank you, Alejandra for the question. Yes. As we mentioned in the fourth quarter, given the statistical behavior of the market in an electoral year, the second half of the year was slower than the first one. Therefore, there was some pressures in the market, and we see a decline in

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our average price. And also, we believe that this trend might be changed in the first quarter 2019 since a price increase has been announced. Going to Cement US pricing, it has been improving year over year as we have seen in the in the period we did since the beginning, and it is behaving according to the economic trends for the country.

Alejandra Obregon: And are you expecting to increase prices for the year in both regions, given that a lot of the competitors have announced price increases in both markets?

Fernando Ruiz Jacques: We will try to increase prices in order to mitigate the impact in cost that we have had, Alejandra. Mainly, I'm speaking about Mexico. We are making an effort on that sense, and we have an opportunity--if you take a look at the remittances, they are as high as ever, so I think there's an opportunity there. And there's also going to be a lot of government spending in the coming months, so we see that the demand might go up for the next months.

Nevertheless, as we know, there will be less government spending in infrastructure and so on. There will be more in social programs, less in infrastructure, so we will have to focus--we're conducting a plan to take advantage of that.

Alejandra Obregon: Thank you, and maybe a quick follow up, if I may, in the Metals division. We saw a double digit decline in volumes, and I was just wondering if you could give us some color on what drove that. Is there anything else aside from what you already mentioned that happened during this quarter? I think it's been one of the lowest volumes we've seen in quite a while?

Juan Francisco Sanchez Kramer: Thank you, Alejandra, again, for the question. Yes, volumes were lower in the Metals division mainly because of two reasons. One is we concluded the supply agreement for the year with Bank of Mexico, so we didn't have those volumes in the fourth quarter. And second, we are facing tougher competition in export markets, mainly from China, and we believe it has to do with the discussions between China and the US.

Alejandra Obregon: Understood. Just to quantify, how much of the agreement with Bank of Mexico was represented in that decline?

Juan Francisco Sanchez Kramer: We were selling in the first half of the year. Also, it is important to mention that in the fourth quarter we had operational problems that were combined with the high turnover that we have had throughout the year. And that lead to a lesser output from our plants, one in specific. That impacted the volume, revenues, and profits, of course.

Alejandra Obregon: I'm sorry, Juan Francisco, I think I missed the numbers. Would you please repeat that Bank of Mexico sales, please?

Juan Francisco Sanchez Kramer: It was 400 tons per month.

Alejandra Obregon: Okay. Thank you very much. This was very helpful.

Juan Francisco Sanchez Kramer: Thank you.

Operator: We take our next question from Cecilia Jimenez with Santander. Please go ahead.

Cecilia Jimenez: Yes. Hi, guys. Good morning. I have a few questions on cement in Mexico specifically. Probably the first on is it seems to me--it doesn't seem. I think it's obvious you are gaining market share in terms of volumes during fourth quarter. The industry average was close to minus six, and you reported plus six. I see the price of having--you have a price contraction. So how aggressive are you planning to do be in terms of pricing in cement in Mexico for 2019? And we are seeing the price at the industry level growing roughly, I would say, below inflation. So is it necessary to be as aggressive in order to place additional volumes?

That's number one, and number two regarding volume outlook for 2019, the data that we had in fourth quarter had been 2018 had been deteriorating. So we started with minus three and something minus four, and the data we got yesterday or today was almost minus nine. So it could have been a result of the cancelation of the Mexican City Airport, probably, or partially. But do you foresee these downward trends in volumes to continue? What's your outlook for 2019, and are you as concerned as I believe I am right now or not, not necessarily? That's all I have. Thanks.

Juan Francisco Sanchez Kramer: Thank you, Cecilia. Hopefully, we can follow up all your questions. If not, please ask again. So for the first question that has to do with volumes and pricing, how aggressive are we planning to be regarding pricing, so let me take two steps back because it is important to put some background on this. First of all, we have been, as you know, ramping up the expansion of capacity that we did. And because of that, we focused for some time more in bulk than in bags.

So in comparison, that affected our average price because bags, as you know, have a better pricing. What I'm trying to say is we haven't lowered our prices to gain more volume. We are picking up or focusing on specific segments and region as always to allocate the volume. What we did, though, was to focus more on bulk to allocate faster the volume.

Cecilia Jimenez: So it's a matter of mix?

Juan Francisco Sanchez Kramer: Sorry?

Cecilia Jimenez: It's a matter of mix rather than a price reduction?

Juan Francisco Sanchez Kramer: Yes.

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Fernando Ruiz Jacques: That is correct.

Juan Francisco Sanchez Kramer: So, again, we are very close to optimal capacity utilization levels, and, therefore, we don't see really an increment of volume for 2019. Again, we will be changing to more bulk--sorry, to more bags than bulk, and that will help improve our average price again. And because of what Fernando mentioned, we are targeting specific programs and opportunities that we see from all the changes that we have seen in policy--politics, sorry, and taking advantage also on remittances and support for social housing, etc., etc.

Fernando Ruiz Jacques: Just expanding on Juan Francisco's comment, maybe we will keep on focusing on our strategy, which has proven to be very successful so far. So quality first, having a clear value added, no, and showing this to our clients, no?

Alfredo Recke: And expanding on Juan Francisco, we will also have an incremental volume on the fourth quarter with Yucatan, late in the year.

Juan Francisco Sanchez Kramer: Also, it is important to mention--you mentioned that there is expectation of our market contraction. It might be. We believe that the statistics in a post-electoral year always the first half of the year is slower, and the second half is better. So we are expecting behavior just like that. If we didn't answer some of your questions, just let us know.

Cecilia Jimenez: No, no, that's clear. Don't get me wrong. I think you have done an amazing job with Cement Mexico. Maybe just a trend in the industry is what is concerning me most, more than your specific performance. I don't know. I guess we'll see during the first half of the year how the market evolves. Thank you.

Juan Francisco Sanchez Kramer: Thank you.

Operator: Our next question comes from Vanessa Quiroga with Credit Suisse. Please go ahead.

Vanessa Quiroga: Yes. Hello. Thank you and good morning to the Elementia team. My first question is regarding a guidance that you provided for this year. Just to confirm if I heard correctly that you're expecting low double digit growth for consolidated EBITDA. So I was wondering if you could provide a rough idea of what division will drive most of this growth and then also how you expect the Metals division to perform in the coming quarters, which one could be the bottom in terms of EBITDA for Metals? Thank you.

Fernando Ruiz Jacques: Thank you, Vanessa, for your question. You know, we don't love to give a lot of guidance. What I can tell you is this growth, you will see it through Cement USA. 2018 was a very challenging year. We had this unfortunate event. As we have said, we have invested an interesting Capex according to plan. Based on that, I think that our operations have a very clear stability now, so the growth definitely will come from Cement USA and likewise from the Building Systems Latam and USA.

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In Building Systems Latam, we already went through the conversion of the change in technology, so I think we already went through the learning curve. And in the Building Systems US, we already hit the breakeven point from Terra Haute. From now on, we're very positive on that market as well. The short answer is Cement USA and Building Systems US and Latam.

Vanessa Quiroga: Okay. Great. And then about Metals, how do you think the coming quarters will perform? Which one could be the bottom in your view?

Juan Francisco Sanchez Kramer: Metal Products have lesser seasonality impacts, but usually the last quarter is the lowest. As we've tried to explain, we have impacts in our inventories because of situations of the commodity, the copper price, and exchange rate. What we are doing is several actions to mitigate this impact.

Fernando Ruiz Jacques: So, let me expand on that answer. So, some of the actions we're taking Vane from an operational standpoint, for instance. We've seen a fluctuation in metal costs. So basically, here, what we're doing is we're aiming to reduce our conversion period through a better sales and operations planning that will reduce our time exposure to the effects and copper prices. Likewise, we are reducing our inventory levels. As we speak, we're reducing them, more or less, 20% and SKUs.

Basically here, we're following the methodology we implemented in Building Systems Latam, which has proven to be very successful, in order to focus on core products, segments, and markets. Also, in operations, we are working a lot in transformation costs. We're investing in our equipment to minimize corrective maintenance, and also, we're having better maintenance planning in key equipment. So we think we're going to have a lower maintenance expense next year, well, this year.

And also, we're working on continuous improvements like in metal yields. So we're allocating our cast equipment in order to reduce metal losses. Likewise, as we said during the first part of this conference call, we had a very big turnover, basically, in what is San Luis Potosi and Celaya. The automotive industry there has been growing a lot, so there's a lack of labor in that area. So here, we are decreasing the workforce turnover rate by focusing on population segments that have lower turnover rates. We have been developing some studies, analysis in order to detect which are these population segments. And also, we are implementing additional benefits and also the philosophy of "the best place to work." So we have been working in this for the last three, four months and it has proven to be quite successful.

Now, from a commercial standpoint, we are working on two interesting things. First, we are working with value added products where we have had an interesting growth. We're basically focusing on the construction industry, so we're producing now bulk flexible hoses, fittings, among many others. In 2018, we grew 15% versus 2018 in value added products, and the return on this kind of product is quite interesting. It's 22% EBITDA, more or less, so it's quite interesting. And also, we're working very hard on commercialization. So here, as I have said before, we're taking advantage of our brand and also

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of our channels. So far, we have introduced more than 100 plumbing products, such as faucets, copper connections, water bowls, etc.
We have been able to develop more than 150 new clients. From 2017 to 2018, we grew more than 25% in this area with very, very interesting contribution margins, above 30%. The sales also has grown dramatically, from 2017 to 2018. So it's still a small chunk of the pie within the sales picture of Metals, but it's growing at a very interesting pace. So we believe with these two strategies we will see nice things for Metals in the near future.

Vanessa Quiroga: Okay. Thank you for all the explanations and things.

Operator: As a reminder, it's star and one on your touchtone phone for questions. We can go next to Eric Neguadart with Bank of America. Please go ahead. Your line is open.

Eric Neguelouart: Hi, guys. Thank you for the call. So I guess I'll be following up on Vanessa's question. You're describing 2019 as a transformational year for the Metal division in general. Should we expect to see impacts in margins as we saw in Building Systems in Latam during this year? And would you go as far as making hedging positions for copper in this division? If you're going to increase pay for workers to reduce turnover, should we see this as a possible impact for margins in the year? Thank you.

Juan Francisco Sanchez Kramer: Thank you, Eric. Let me begin with the hedging strategy for Metals. As you know, we have in place a very plain hedging strategy to cover our inventories. And we are in the process of redesigning those hedges to better align them to the sales and procurement. Yes, what you can expect to see in 2019 is a change in that strategy. And the idea is, again, help mitigating the volatility of the commodity. To your second question, that is turnover, yes, one of the things we are doing is increasing salary. Given the impact of the metal as a raw material in overall cost, we don't expect to see a heavy impact because of labor cost.

Nevertheless, we have had a stronger impact on maintenance cost because of this because, as probably you can imagine, the turnover means that new people are coming, and they have to learn to use machines. And also, we have to train the maintenance team, etc., so we have faced an increment of maintenance much more than what it is in labor. We believe that this maintenance cost might be reduced throughout 2019 because all the actions we are undertaking. And finally, if I understood your question, if not, please let me know. The question was regarding margin improvements on Building Systems, right?

Eric Neguelouart: No, you described the year for the Metal division as transformational, and it was the same with Building Systems Latam in 2018. This has a really big impact on the division. Should we expect a similar impact for Metal during this year, or will it be lesser than what we saw in Building Systems?

Juan Francisco Sanchez Kramer: Okay. I understand the question now. Thank you. Yes, I mean, we are using the same methodology that we used in Building Systems for Latam to refocus the business on core products, segments, and regions. That is the same that we are doing in Metal Products. Nevertheless, the change in margin that we are expecting in Metals is much lesser than what we are achieving in Building Systems because the main change in margin in Building Systems comes from the technology change that we did.

Eric Neguelouart: Okay. Understood. Thank you very much.

Juan Francisco Sanchez Kramer: Thank you.

Operator: Our next question comes from Hernan Kisluk with Met Life. Please go ahead.

Hernan Kisluk: Hello. Good morning. Thank you for taking my question. It's related to the waiver that you're asking the bank to extend on the breech of the interest converage ratio. So if you could provide some color on that and update on the negotiations for this waiver? And also, how do you expect this ratio to evolve in the next few quarters, let's say?

Alfredo Recke: Sure. Thank you for your question, Hernan. Yes, we're in process of this waiver. We are in talks with the banks, and we think the interest coverage ratio will be about three times by the second quarter. So this is what we've said to the bank, so they don't see any trouble there. We won't be using our credit revolving facility, so there's no trouble there.

Hernan Kisluk: Okay. Thank you.

Juan Francisco Sanchez Kramer: Probably elaborating a little bit more on that, as you probably have guessed, we have incremental interest expenses because of the increase in rates, in general. It was close to 100 pesos increase overall. And also, EBITDA for the full year was not the best one that we have had, and that effected our ratios. We believe, as we have stated, that we will be improving net generation for once. And second, we did a prepayment of the debt in the last quarter, so we are also expecting to have lesser interest throughout the year. Both of those are the main pillars to improve this ratio.

Hernan Kisluk: Okay. Thank you very much.

Operator: We take our next question from Veronica Renaro with BNP Paribas. Please go ahead.

Veronica Renaro: Yes, hi. Good morning. Looking at the BOLSA report, there is some significant amount in interest received, or 1.5 billion, which is really driving a lot of improvement in the cashflow. Although, I realize there's also purpose of the working capital type. Can you explain this interest income? Where is it coming from? Thank you.

Juan Francisco Sanchez Kramer: Thank you, Veronica, for the question. As you know, we have a policy of investing the cash in several ways. The cash in hand, we usually invest it in overnight, and we also have some other investments in a…

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Veronica Renaro: Sorry. We cannot hear.

Juan Francisco Sanchez Kramer: Can you hear me now?

Veronica Renaro: Yes, thank you.

Juan Francisco Sanchez Kramer: Thank you. As I was saying, the cash position is in dollars, and, therefore, it helps the exchange rate and the interest that we have in there. Basically, that's that.

Veronica Renaro: Okay. May I do another question?

Juan Francisco Sanchez Kramer: Sure.

Veronica Renaro: Okay. What's the amount of committed lines that you have currently that are available and unused?

Juan Francisco Sanchez Kramer: Sure. We have a committed credit line for US$400 million. It is a syndicated facility, and we haven't used any of that.

Veronica Renaro: Okay. But once you get the waiver for the current in breach, you will be able to use the line, correct?

Juan Francisco Sanchez Kramer: That is correct. Now, an important point for that is we get that facility in order to prepare, again, the balance sheet for further expansions. For the time being, the focus remains to deleverage, and we will not use it unless there is a tremendous opportunity that we see in the markets.

Veronica Renaro: Okay. Thank you very much.

Juan Francisco Sanchez Kramer: Thank you.

Operator: Once again, it's star and one for any further questions today. And it appears we have no further questions. I'll return the floor to Fernando Ruiz for closing remarks.

Fernando Ruiz Jacques: Thank you, Keith, and, as always, thank you for your continued interest and certainly your trust and support to Elementia. A final remark, I'd like to emphasis the role that each of the business units has and that we are progressing accordingly. So both the Cement and Building Systems US units equals grown, Building Systems in Latam equals transformation and profitability recovery, while metal products will continue to be our main cash flow generator.

So thank you once again, and please feel free to contact our investor relations team or ourselves directly to any further questions you may have. Have a nice rest of the day. Thank you.

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